Bethlehem Copper Corporation

Twentieth Annual Report, 1974

CONTENTS

Economic Impact

of Bethlehem's operations in the period December 1, 1962 to December 31, 1974

Export Sales	(U.S.) $266.8 Million
Salaries and wages paid	$ 35.1 Million
Supplies and services purchased	$ 92.4 Million
Capital expenditures	$ 34.8 Million
Exploration and development	$ 14.7 Million
Direct taxes paid by Company	$ 41.8 Million
Employee income taxes	$ 7.6 Million
Dividends paid to shareholders	$ 33.2 Million

The Year at a Glance

Net earnings	$ 9,480,494
Shares issued	6,241,697
Earnings per share	$ 1.48
Dividends declared	$ 5,126,014
Dividends per share	80c
Tons milled	6,346,402
Revenue per ton milled	$ 6.36
Direct cost per ton milled	$ 3.16
Pounds copper produced	57,089,384
Employees	408
Total company payroll	$ 6,040,970
Capital expenditures	$ 6,951,721
Exploration and development	$ 2,881,544
Direct taxes paid	$10,361,993
Working capital	$60,819,924
ORE RESERVES:	
PROVEN (tons)	
Available to present mill	63,864,723
Ore grade — % Cu.	0.46
J-A zone project	286,280,000
Ore grade — % Cu.	0.43
Ore grade — % Mo.	.017
Lake zone project	190,000,000
Ore grade — % Cu.	0.48
DRILL INDICATED (tons)	
Maggie ore zone	200,000,000
Ore grade — % Cu. equivalent	0.40

Valuation Day Price — $18 per share

Report to the Shareholders

The year began with metal prices approaching an all-time high but as 1974 progressed the price of copper on world markets declined steadily until at year end it had fallen from $1.52 per pound to 56c per pound, a decline of about 63%.

Earnings per share, before extraordinary items, were $1.62 in 1974. In 1973 the comparable figure was $3.73 per share.

Costs escalated rapidly throughout the year, wages by 17%, grinding steel by 62%, fuel by 40%, to list a few examples. This resulted in direct costs at the mine rising from 27c per pound of copper in January to 39c in December. To this figure must be added government royalties, smelting, refining, marketing and transportation costs, which amounted to 16.5c, making a total cost at the end of the year of 55.5c to produce a pound of copper. When the cost of general administration and exploration is added, the breakeven point at the end of the year was 59.5c per pound before providing for return on invested capital.

The mining industry is caught in a confrontation between provincial and federal governments. The Government of British Columbia imposed an exorbitant and unrealistic tax system on mineral production by implementation of the Mineral Land Tax Act and the Mineral Royalties Act which became effective January 1st, 1974. These taxes resulted in an erosion of the federal tax base and the Federal Government countered by disallowing provincial taxes and royalties as a cost in the calculation of federal income tax. Together these actions have imposed a combined tax rate on the industry which under certain circumstances can be more than 100%. New mine development in British Columbia has been brought to a halt and it is to be hoped that this open conflict between the two levels of government over sharing of the tax revenues will soon be resolved and that profitable mine development will once more be encouraged. Profits provide the fuel for new capital investment which in turn creates new jobs and new communities. New jobs are urgently needed to give our young people on leaving school an opportunity to earn a living and eventually provide for families of their own. Each direct job in a mine creates from five to seven new jobs in manufacturing, service and supply industries at local, provincial and national levels.

The Company has successfully appealed a decision by the Department of National Revenue which denied a tax free period in respect to the income of the Jersey Mine during its first three years of production in 1965 to 1968. The Department has also agreed that the income from the Huestis Mine will be exempt from tax for the first three years of its operation, 1970 to 1973. In the years affected, the Company was required to provide and pay taxes on the presumption that the income from neither mine would qualify for tax exemption. Pending reassessment by the Department, the Company has provided $12,000,000 in its financial statements for the estimated recovery of taxes including interest.

Ore Reserves

Ore reserves are summarized on page 1 of this report. At the present rate of production Bethlehem processes about 6,500,000 tons annually. The ore from the Huestis, Jersey Extension and the Iona will provide feed at this rate for about 10 years. The location of these orebodies is shown in the diagram on page 8. Most of the ore being fed to the mill at this time comes from the Huestis Mine, which has a remaining life of approximately two years.

The initial pit in the Iona Mine will contain approximately 14,000,000 tons of ore and it is planned as the next orebody to be mined. Approximately 25,000,000 tons of overburden will have to be removed from the Jersey Extension which will, in turn, make available 35,370,000 tons of ore.

The J-A and Maggie orebodies are uneconomic because of the depressed price of copper and the disincentives arising from the taxes imposed by our governments.

Lake Zone Orebody

During the year meetings have been held with the management of Valley Copper Mines Ltd. in order to determine whether there is a mutually satisfactory way to unitize the Bethlehem and Valley Copper properties in Highland Valley and proceed with production from the Lake Zone orebody. No decision has been reached and negotiations are still in progress.

Smelter Study

As stated last year, the rapidly escalating smelter charges and uncertainty as to world smelter capacities make consideration of a British Columbia smelter a matter of continuing importance. However, since the productive life of the orebodies presently being mined is too short to justify in-

P. M. Reynolds, President (right) with J. A. McLallen, Chairman

vestment in a smelter, further consideration of such action by our Company has been postponed until a decision is reached with respect to development of the Lake Zone orebody.

Diversification

Your Directors have determined that Bethlehem should not confine its activities exclusively to British Columbia. An extensive mineral exploration program in other areas is the subject of a separate report on page 10 by our Vice-President, Mr. H. G. Ewanchuk, P.Eng.

Because of the ever increasing energy demands envisaged in the next 20 years, a search is being conducted for investment in or acquisition of a producing coal company as well as investment in other mineral related ventures. This program is the responsibility of Mr. Richard A. Mundie, Vice-President, Corporate Planning and Development.

Frio Oil Ltd.

Frio recently participated in a gas discovery in the Gundy Creek area of north-eastern British Columbia. A second well was drilled and both are being put on production. The Petitot discovery well, also in north-eastern British Columbia, which was reported on last year, is being readied for production. Frio is 50% owned by Bethlehem.

Labour Agreement

Bethlehem's employees are represented by the Canadian Association of Industrial Mechanical and Allied Workers under agreement extending to June 30th, 1975.

1975 Operations

When in early 1975 it became apparent that the world price of copper will probably remain depressed throughout most of the year, a study was conducted to establish what steps should be taken to enable us to continue to operate without incurring severe financial loss. Balancing the economic facts against an acute awareness that many of our employees have established themselves in Ashcroft, with housing obligations and children at school, the Board of Directors determined to make every effort to minimize disruption of family lives and business in the community we have helped to build. Consequently, it was determined to keep the mine and mill operating but to minimize costs by temporarily curtailing development and this has resulted in about a 10% workforce reduction and the idling of some equipment. The Company's situation was carefully explained to our employees and we appreciate the cooperation they have given us in implementing this very difficult decision.

We have been asked by our customers to make some reduction in shipments this year which may result in a few weeks of forced shutdown later in the year but we shall actively try to avoid such action.

Heavy snow caused the collapse of the cover of the fine ore bin, which also supports a conveyor and shuttle system, and forced a shutdown during the first quarter of 1975. Temporary repairs were effected and operations recommenced with a loss of 15 days. While permanent repairs are being carried out this summer every effort will be made to avoid lost time.

Acknowledgment

Mr. Göran Philipson, of Gränges AB, Stockholm, has served as a Director of Bethlehem since June 1970. His fellow Directors regret that other duties will prevent him from continuing in that capacity and express their appreciation for his valuable contribution to the work of the Board during his term of office. Gränges' nominee to succeed Mr. Philipson will be Mr. Tryggve Angel, President of Gränges International Mining.

Mr. Richard A. Mundie, C.A., Assistant Treasurer, has been appointed Vice-President, Corporate Planning and Development. Mr. D. W. J. Specht, LL.B., Secretary of the Company, has been appointed Vice-President, Secretary and General Counsel. Congratulations are extended to these two very valuable and dedicated officers.

The Board of Directors appreciates the support of our employees in our efforts to maintain an efficient and profitable operation during the difficult economic and political period with which we are faced.

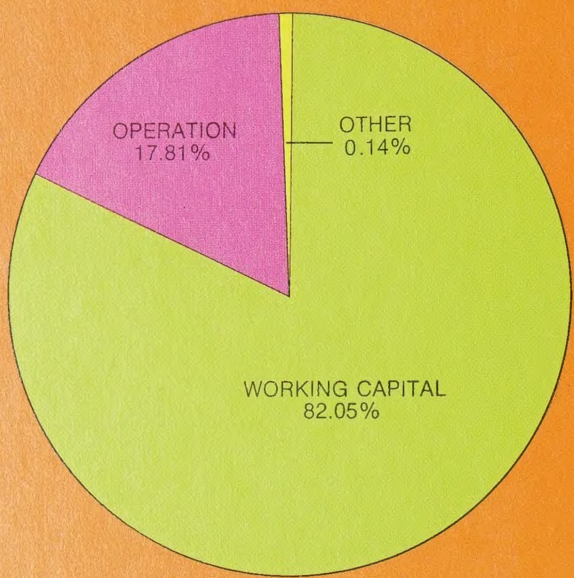
On behalf of the Board,

PATRICK M. REYNOLDS
President and Chief Executive Officer

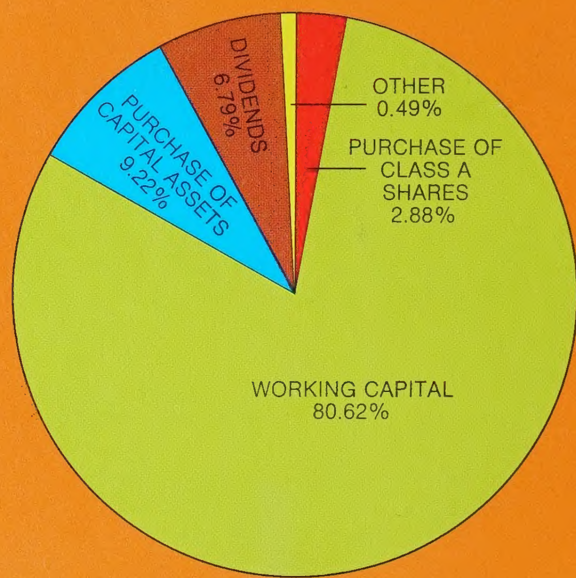
April 8, 1975

Highlights in Graph Form

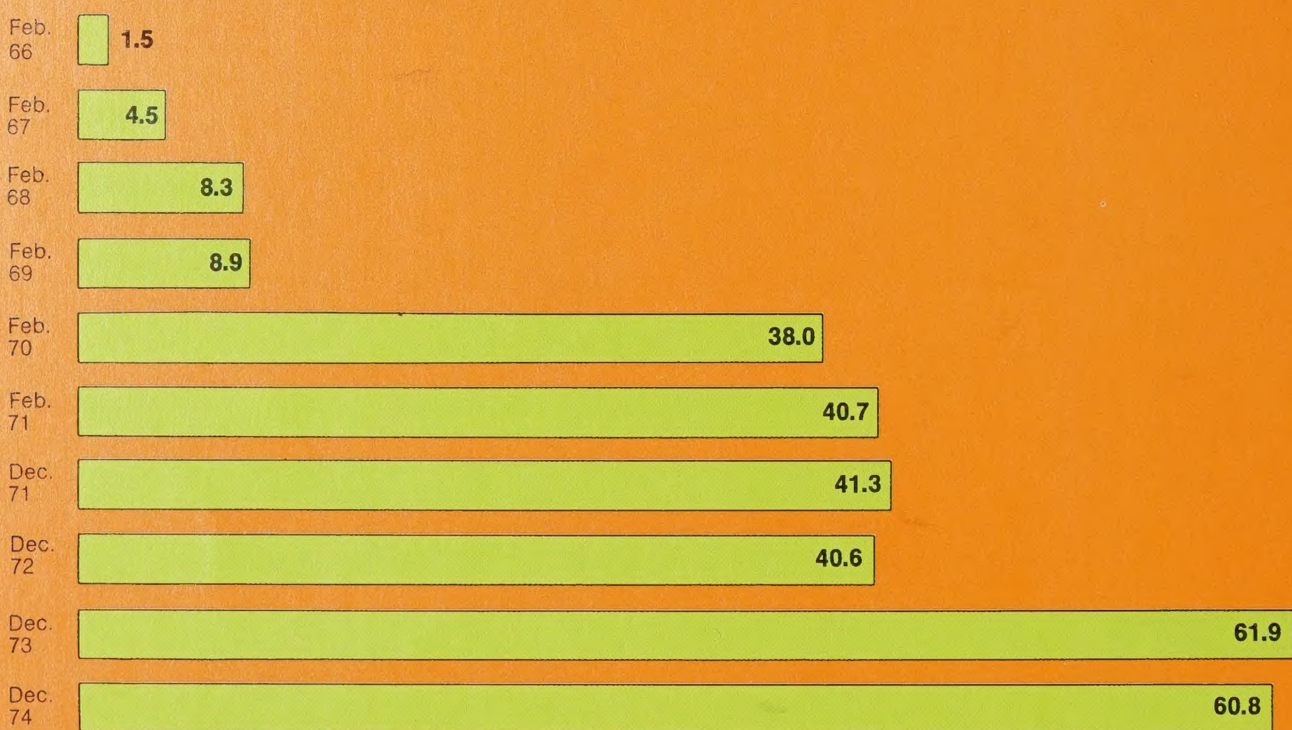
FUNDS WERE PROVIDED FROM:



FUNDS WERE APPLIED TO:

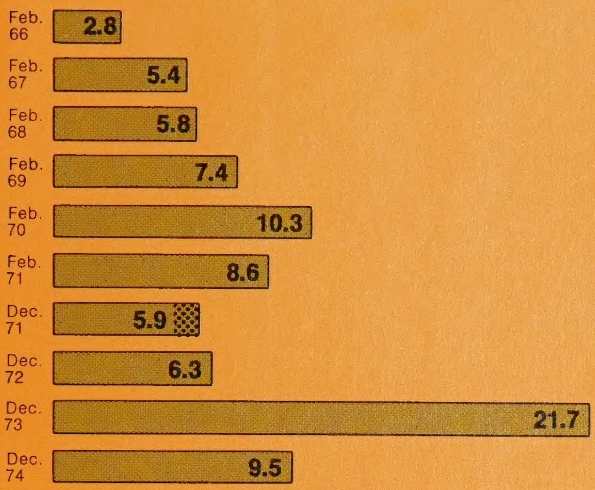


WORKING CAPITAL *in millions of dollars*

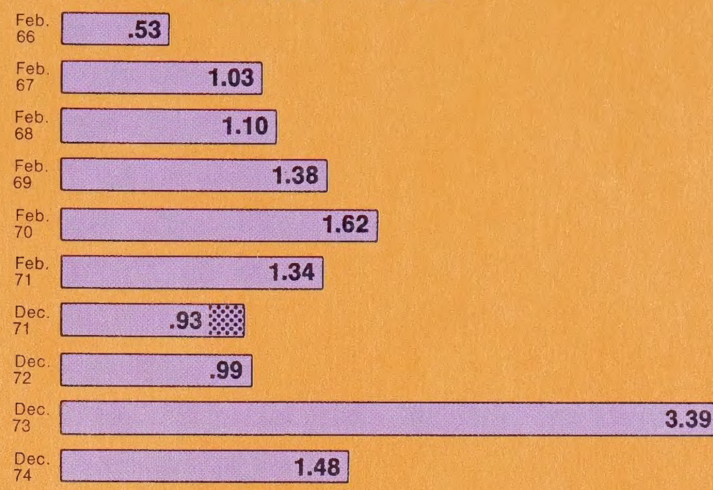


Shaded sections of 1971 graphs indicate an estimate to complete a 12-month fiscal year, for purposes of comparison with other years.

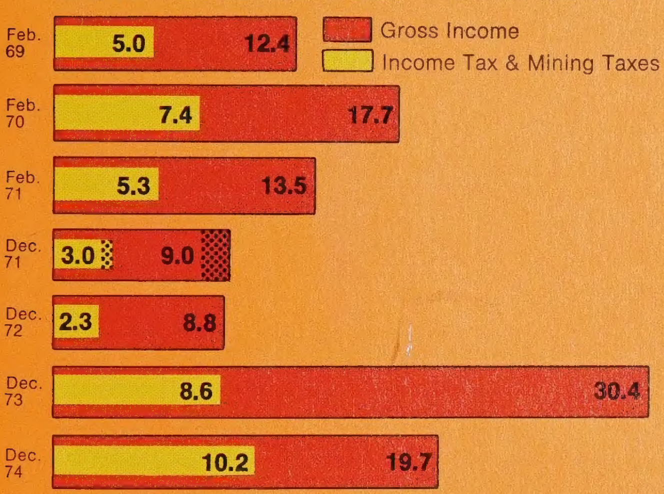
NET EARNINGS *in millions of dollars*



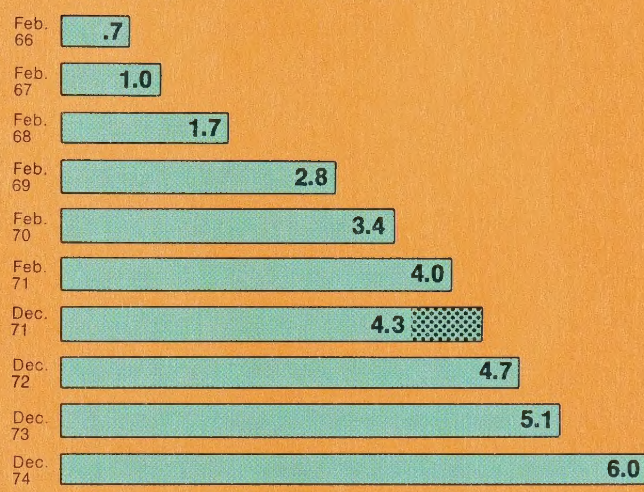
EARNINGS PER SHARE *in dollars*



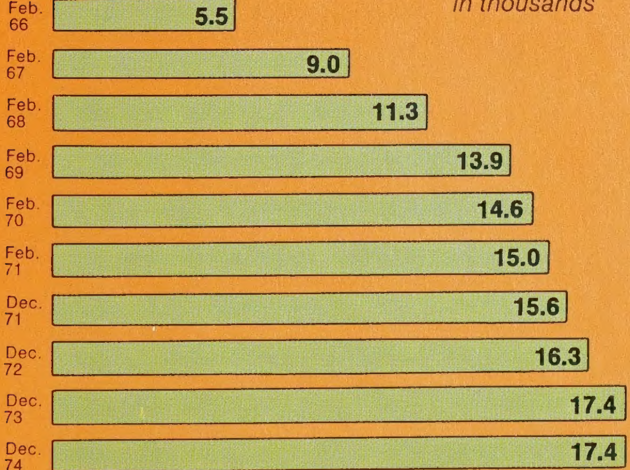
GROSS INCOME AND TAXES *in millions of dollars*



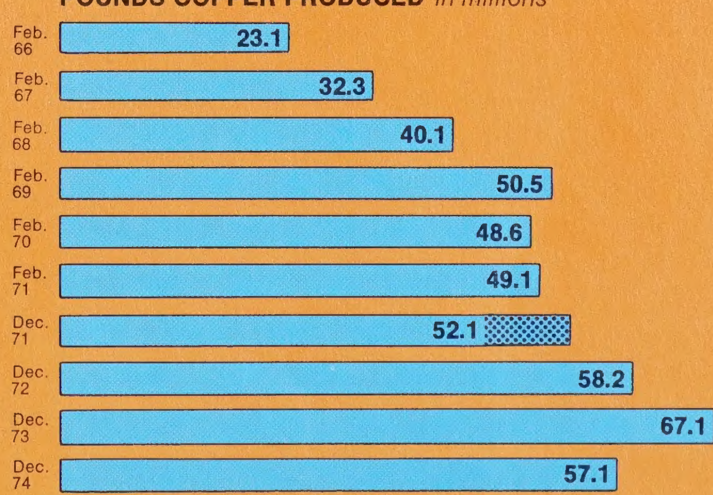
PAYROLL *in millions of dollars*

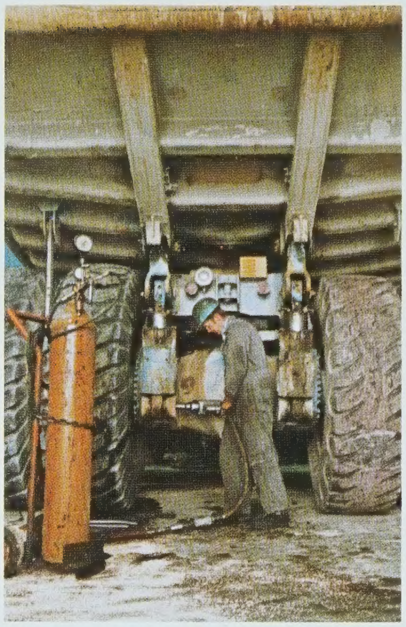


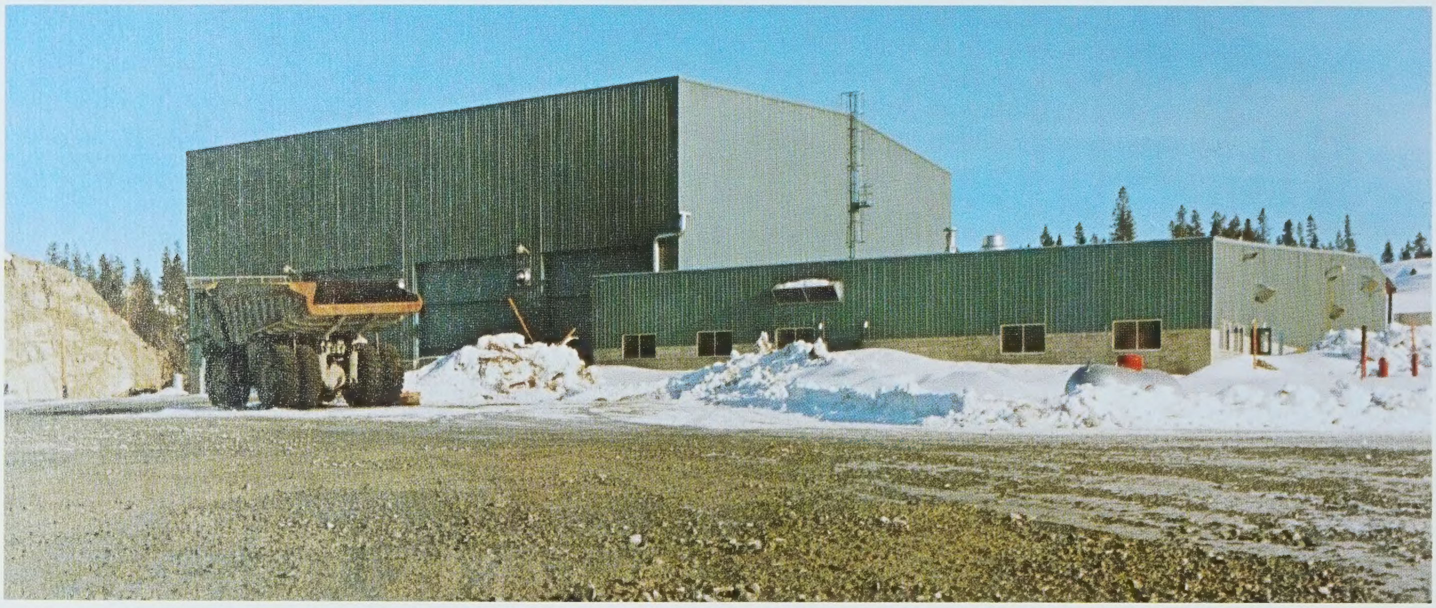
AVERAGE TONS ORE PROCESSED PER DAY *in thousands*

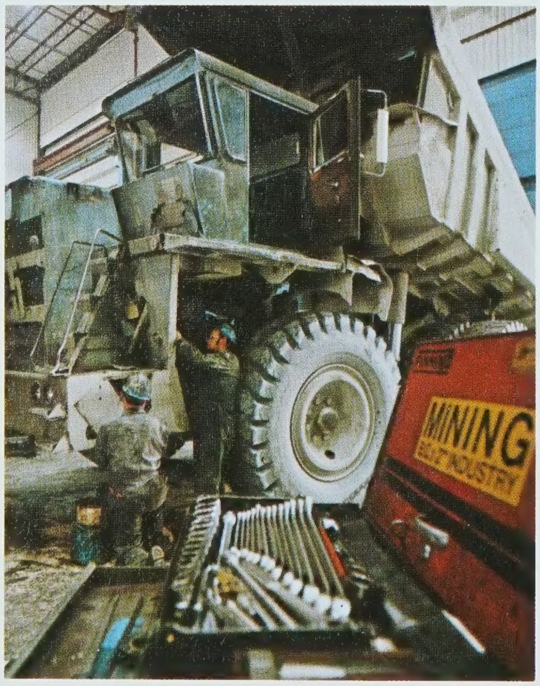


POUNDS COPPER PRODUCED *in millions*








MINING

General Manager's Report

Reported below is a review of operations of the Highland Valley Division during 1974, with comparison figures for the previous year:

Mine

		1974	1973
Ore —			
From: Huestis mine	tons	**4,942,943**	6,178,197
Jersey mine	tons	**1,481,440**	17,249
Iona mine	tons	**34,357**	38,540
Stockpile	tons	**834,767**	349,442
Total	tons	**7,293,507**	6,583,428
Waste —			
From all areas	tons	**13,879,489**	14,599,566
Stripping ratio	waste: ore	**2.15:1**	2.34:1

Plant

		1974	1973
Ore milled	tons	**6,346,402**	6,339,122
Copper contained	%	**0.51**	0.58
Copper in concentrate	%	**33.13**	31.80
Recovery	%	**89.95**	91.20

Production

During the past year our mill facility processed 6,346,402 dry tons of ore for a record daily throughput of 17,387 dry tons. Despite the record ore production, the copper produced was 57,089,384 pounds, which is approximately 10 million pounds less than that produced in 1973. This was due to the ore processed assaying 0.51% copper in 1974 as opposed to 0.58% in 1973.

Cost of Production

	1974 Per Ton Milled	1973 Per Ton Milled	1974 Per Lb. Produced	1973 Per Lb. Produced
Direct operating cost (includes mining, milling, administration, transportation, smelting, refining and marketing)	**$4.46**	$3.83	**49.58c**	36.16c
Royalty	**.16**	—	**1.75**	—
Depreciation	**.33**	.31	**3.63**	2.93
Total direct costs (excluding exploration)	**$4.95**	$ 4.14	**54.96c**	39.09c
Increase	**19.57%**		**40.60%**	

Note: In 1975 the basic royalty rates will be double that paid in 1974, and if the price of copper goes above 77.696c, the "Super Royalty" of 50% would apply on the difference between the price received and 77.696c.

Personnel and Safety

Personnel turnover for 1974 was 29.3%, down slightly from the previous year, and, with the exception of skilled mine mechanics, no difficulty was experienced in filling job vacancies. Of the few labour union complaints or grievances which arose during the year, all were settled without recourse to arbitration or work stoppages.

Due to the rapid escalation in the cost of living, a 7.6% interim wage increase, not included in the present agreement, was granted to all employees on August 1st.

In 1974 non-supervisory staff employees became certified under the Canadian Association of Industrial Mechanical and Allied Workers. This group is the bargaining agent for our hourly employees. A contract was negotiated and a smooth transition took place.

A revised safety program was initiated which entails greater day-to-day involvement by all employees. The cooperation of our employees in this program has been excellent.

Capital Expenditures

Major capital expenditures in 1974 were as follows:

1.	The second phase of the Circle 7 subdivision	$ 117,962
2.	The installation of a fire sprinkler system in our office, lab and warehouse	42,915
3.	The construction of a new pit shop (total cost $2,500,000)	1,914,100
4.	The erection of a new water tank to replace our original reservoir	305,377
5.	The extension of a high-voltage line into the Jersey and Iona pit areas	263,687
6.	The acquisition of new mobile mine equipment	3,832,167
	Total	$6,476,208

With the exception of the first three items, these expenditures were required to expand the Jersey pit extension. We have also started to phase in larger mine mobile equipment units in order to have a more efficient operation. We now have on the property a new 12-yard shovel and five 100-ton trucks. During 1975 we will acquire an additional five 100-ton trucks and a 15-yard loader which will replace the original 5½-yard shovels and 50-ton trucks.

Future Plans

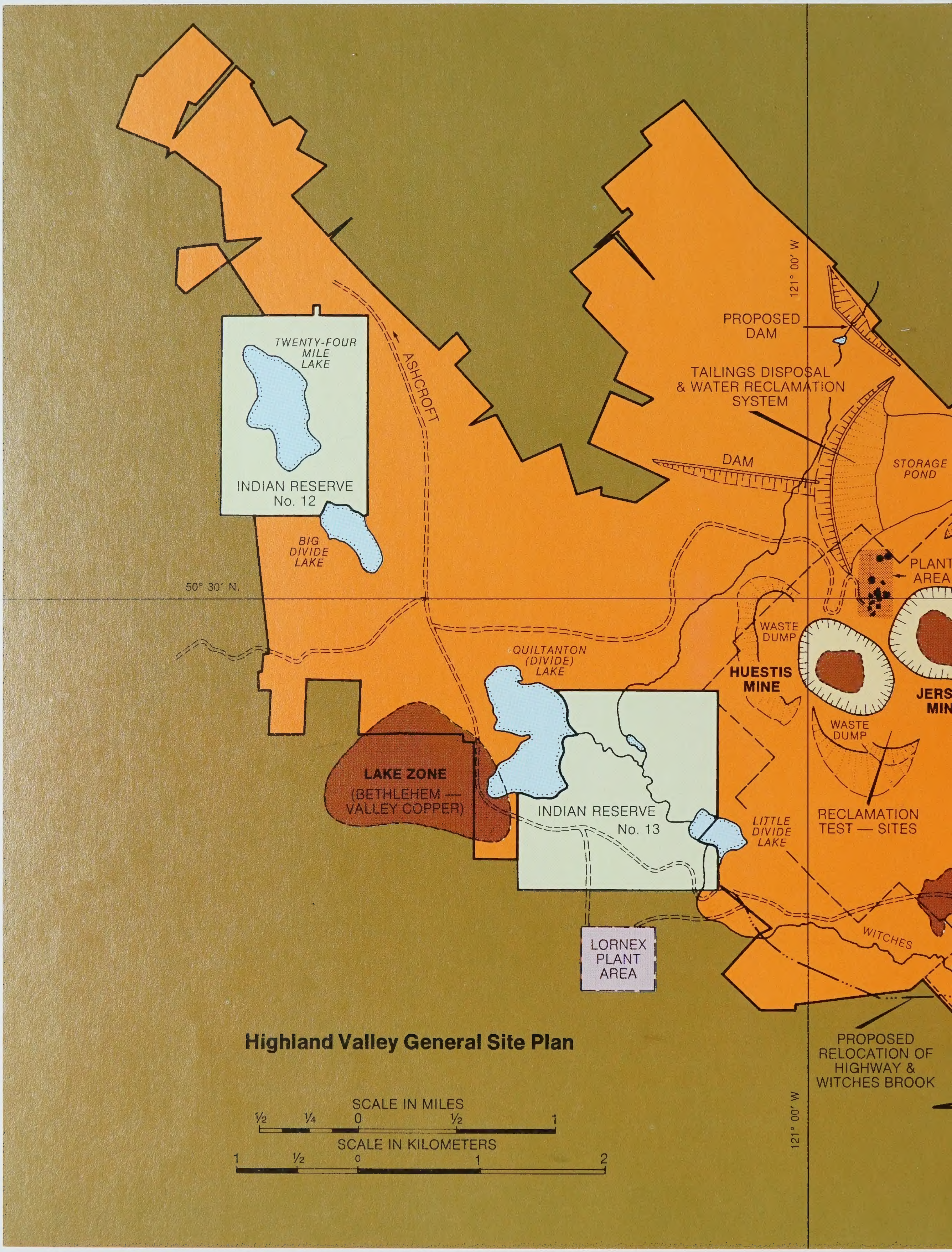
Due to the increase in costs and decrease in the selling price of copper, we have revised our long-term mine development plans in an attempt to maintain a break-even operation. In this respect we have temporarily discontinued work on the development of the Jersey and Iona pits and are confining all mining efforts to the Huestis pit. We have about 24 months of ore life remaining in the Huestis. Therefore, toward the end of this year we will commence development of the Iona, which will come into production in mid-1976. We anticipate that in the first half of 1976 the economic situation will improve to the extent that we will be able to return to the Jersey pit extension program. Prior to any substantial ore production from the Jersey, approximately 25 million tons of waste-rock overburden will have to be removed, involving a time period of 18 to 24 months.

Acknowledgment

On behalf of the supervisory staff, I wish to take this opportunity to express our gratitude to all employees of the Highland Valley Division for their efforts in maintaining a high degree of efficiency in our operations.

THOMAS P. LISS, B.Sc.
Vice-President — Operations
General Manager — Highland Valley Operations

April 8, 1975



Highland Valley General Site Plan


BOSE LAKE
DAM
ONE LOON LAKE
WASTE DUMP
COPPER LAKE
NEW PIT SHOP
50° 30′ N.
EAST JERSEY MINE
PERIMETER OF CROWN GRANTED MINERAL CLAIMS
SPUD LAKE
ONA MINE
PERIMETER OF MINERAL LEASE
J-A ZONE
BROOK
KAMLOOPS MERRITT
LOGAN LAKE

A Change of Direction

by Henry G. Ewanchuk, B.Sc., P.Geol., P.Eng.
Vice-President, Exploration

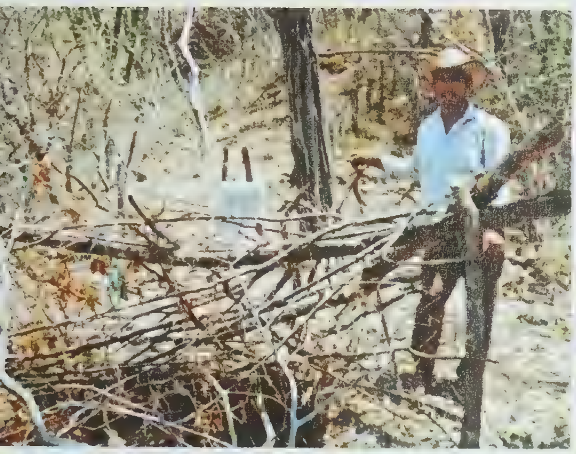
The Exploration Department was very active during 1974. It was a year in which company policies changed from emphasis on British Columbia exploration to a more world-wide approach. The search for minerals was transferred to provinces and territories of Canada and to countries encouraging a vibrant mining industry.

The Lockhart property, in New Brunswick, was optioned in the spring and underwent extensive field exploration and drilling throughout the summer months. Mineralization was encountered but not in sufficient amounts to warrant further work on our part. Joint ventures were carried out in Newfoundland, Quebec, Ontario, the Yukon and the Northwest Territories. Bethlehem applied for coal leases in the Nordegg area of Alberta and subsequently did some preliminary exploration. No conclusive results were obtained and some of the projects will be continued in 1975.

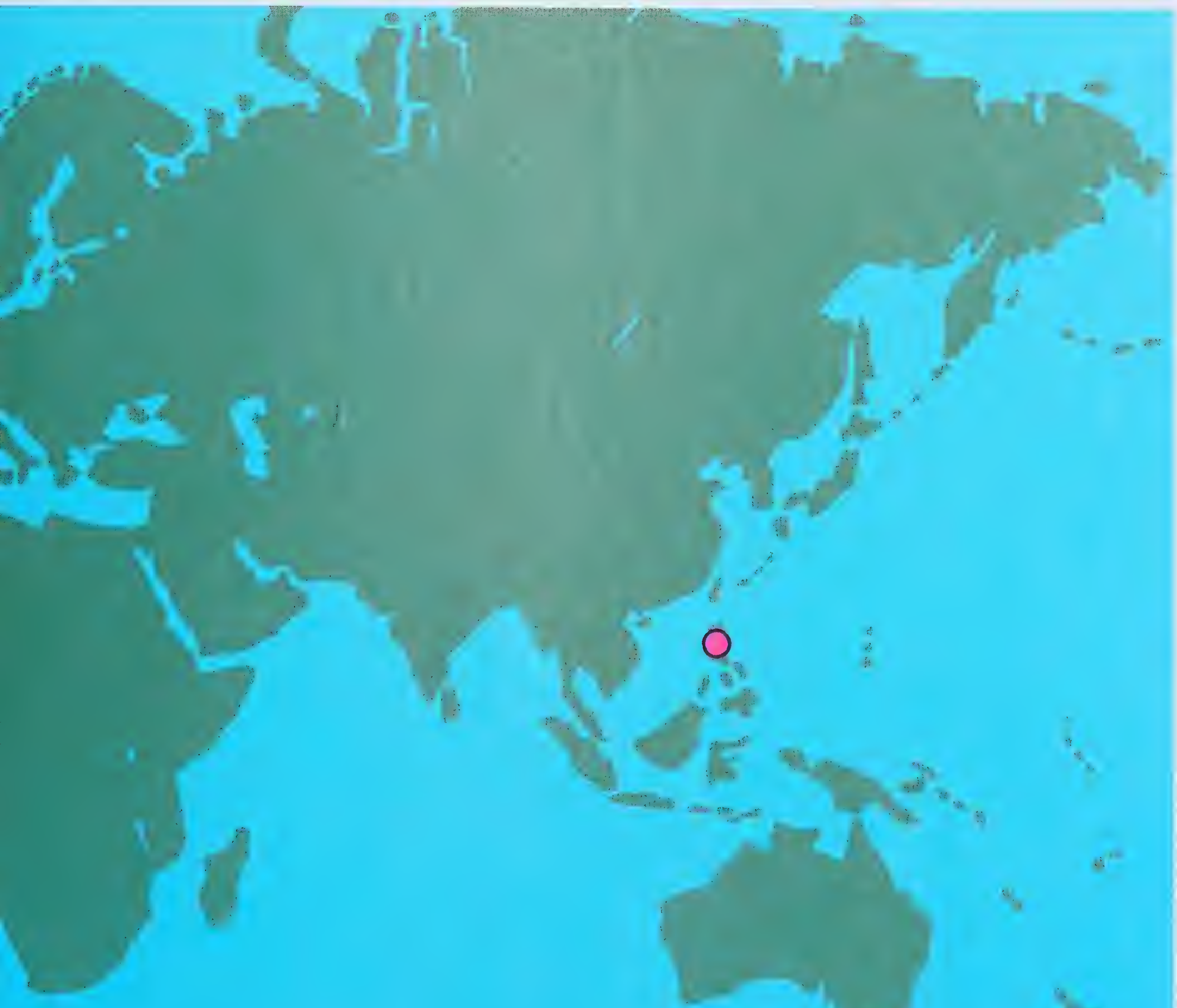
Bethlehem's activities outside of Canada during 1974 were far reaching. Intensive programs of exploration were conducted in several areas of the western United States and preliminary investigations were done in Mexico, Chile and the Philippines. Work done on a gold property in Nevada included surface trenching and drilling; however, the future of this find will depend on metallurgical testing which is now in progress. Property examinations were conducted in the States of Washington, California, Utah, Colorado, Idaho, Montana and Alaska. As a result, a number of areas of interest have been outlined for more detailed consideration in the coming year. Ventures in countries other than the United States have met with mixed results. A joint venture in Ireland has been seriously hampered by a cloudy government tax picture. An exploration office was established in the Philippines during the fall but changes in the political climate have made this geologically promising area much less attractive. An exploration agreement on a property in Mexico is being finalized at the date of this report.

In Highland Valley, a drilling program was carried out to delineate the Iona orebody. To interpret the complex Iona geology and calculate ore reserves, 110 diamond and 62 percussion holes were drilled.

Exploration programs outlined for 1975 include a search for gold in Alaska, Nevada, California and Utah; for copper in Washington and Mexico; for coal in Alberta; and for lead and zinc in the Yukon and Northwest Territories. Joint ventures in Ontario, Newfoundland and Ireland will be continued. In addition to these projects, exploration personnel will maintain a constant vigil for new properties and areas of interest both in Canada and abroad.



Bethlehem Copper Corporation
Properties Map



Inflation — The Robber

by Keith E. Steeves, C.A.
Vice-President — Finance and Treasurer

We are living with a thief in our midst. Against the common thief on the prowl, we can take steps to safeguard our possessions and insure ourselves against losses. Unfortunately, inflation is a thief against which few safety measures can be taken and insurance is not available.

Unlike increases in prices, many losses we suffer from inflation are less apparent. The pensions we build for retirement, bank savings laid away for a rainy day, life insurance plans and a host of other things prudent, responsible and industrious people do to prepare for the future are stolen away through decrease in the value of money. Although the earnings of workers recently appear to have increased to record levels, their standard of living is being eroded by inflation.

Probably the most ruinous effect of inflation is its discouragement of our incentive to save, to work hard and to improve our position in life. These traditionally honourable pursuits appear futile in the face of inflation.

Contrary to popular belief, corporations are not immune to inflation. Corporations are simply groups of people, shareholders, working together and they suffer from the robber inflation in much the same way as individuals. The losses are both apparent and hidden. Increases in production cost are inevitably accompanied by slackening of demand, which in turn results in decreased production and unemployment. The ability to produce income, to grow and create new employment is impaired when the rapid increase in costs prevents replacement of old equipment and the building of new facilities.

Like the earnings of individuals, profits of corporations are being eroded by inflation. The degree of profit erosion is not fully disclosed in the traditional corporate financial statements. Accountants now recognize that present accounting methods do not fully reflect the effects of inflation on profits. Profits are defined as what is left of sales revenues after deducting production costs and taxes. A company spends dollars to produce something but by the time it can sell the article, inflation has "robbed" the dollars received of at least some of their value. It is a vicious cycle which does not appear in the financial statements because accounting principles presently in use require that revenues and expenses be recorded without consideration of the change in value of the dollar between the dates the costs were incurred and the revenues earned.

The accounting inadequacy can be illustrated by considering inventories and depreciation of capital assets, two major components of cost. If we produce a pound of copper at a cost of 45c and receive final settlement six months later at a selling price of 50c we record a 5c profit before taxes. Assuming a 50% tax rate the net profit is 2½c. If, however, through inflation the money we receive is depreciating at the rate of 12% per annum, the 50c selling price is worth only 47c based on the value of the dollar at the time of production. In effect, we have earned only a 2c profit before taxes on the pound of copper, but have paid 2½c in taxes and have, therefore, suffered a ½c after tax loss. At the same time there is no provision made in our cost of 45c for the extra money that will be needed to replace the parts and supplies used, the costs of which have also risen.

The cost of capital assets, such as a mine truck, are recorded in the accounts at cost at the time of purchase. The cost is charged to operations based on the best estimates of the period of time that the piece of equipment will make a contribution to the operation. If we assume that an ore truck costs $200,000 and we can expect it to operate for 20,000 hours before it must be replaced the hourly depreciation charge on that truck would be $10. Depreciation charges should provide that sufficient profits will be generated during the period of use of the asset to provide for its replacement when it is worn out. If, however, during the period of use of the truck, the cost of its replacement has increased from $200,000 to, say, $250,000, the depreciation charge to operations should have been $12.50 per hour to ensure that sufficient funds are generated from profits to replace the equipment.

The problem of accounting for inflation has always bothered accountants. During past periods of low annual inflation there was less urgency to find a solution than in the present period of high inflation. There have been many theories developed for improving accounting principles to allow for measurement of the effect of inflation.

There are two methods now being actively considered by accountants to record the change in values resulting from

inflation. One would annually restate accounts to reflect their true value at the date of the financial statements (Present Value Accounting) and the other would restate the accounts to show the change in the value of money since the expenditures were made by applying an index of measure, such as the Consumer Price Index to actual cost (Price Level Accounting).

We have restated Bethlehem's financial results as at December 31, 1974 and 1973 applying price level accounting principles as we interpret them. A substantial reduction in profits is shown from those reported in 1973 and 1974 as a result of the loss in value of the dollar through inflation.

The need to design a system of accounting for inflation in financial statements is urgent. Inflation has not in the past been recognized in the calculation of the profits of corporations, resulting in over-statement of earnings and in excessive taxation. This has limited the growth of companies and discouraged investment, especially in the mining industry. Governments, corporations and accounting bodies must quickly find a solution to this serious problem.

Bethlehem Copper Corporation
Price Level Adjusted Statement of Earnings
For the Years Ended December 31, 1974 and 1973
$ 000

	1974	1973
Concentrate revenue	**$41,878**	$58,399
Operating costs	**26,830**	23,152
Earnings from operations before taxes	**$15,048**	$35,247
Interest income	**5,537**	3,796
Net loss resulting from effect of inflation on net monetary assets	**(7,869)**	(4,380)
Earnings before income and mining taxes	**$12,716**	$34,663
Provision for taxes	**10,773**	11,898
Earnings before extraordinary items	**$ 1,943**	$22,765
Extraordinary items	**1,320**	2,970
Net earnings	**$ 623**	$19,795

Bethlehem Copper Corporation
Price Level Adjusted Balance Sheet
December 31, 1974 and 1973
$ 000

ASSETS	**1974**	1973
Cash and short term deposits	**$ 49,706**	$ 72,008
Accounts receivable	**10,112**	1,143
Inventories	**4,490**	4,563
Total current assets	**$ 64,308**	$ 77,714
Investments	**2,770**	4,199
Land, plant and equipment less accumulated depreciation	**28,048**	23,992
	$ 95,126	$105,905

LIABILITIES AND SHAREHOLDERS' EQUITY	**1974**	1973
Current liabilities	**$ 3,534**	$ 7,591
Long term liabilities	**440**	611
Accumulated provision for future income taxes	**2,071**	1,764
Shareholders' equity	**89,081**	95,939
	$ 95,126	$105,905

Consolidated Balance Sheet

December 31, 1974 and 1973

ASSETS	1974	1973 (Restated)
Current Assets:		
Cash and short-term deposits	**$50,212,687**	$63,623,646
Accounts receivable	**2,065,814**	1,126,414
Federal and Provincial taxes receivable (Note 2)	**8,387,255**	—
Inventories —		
Concentrates, at estimated net realizable value	**1,087,532**	1,921,175
Materials and supplies, at average cost	**3,368,963**	2,059,642
Total current assets	**$65,122,251**	$68,730,877
Investments, at lower of cost or market (Note 3)	**$ 1,639,852**	$ 2,451,636
(Quoted market value 1974 — $2,748,544		
1973 — $5,134,024)		
Capital Assets, at cost:		
Buildings, equipment and roads	**$28,797,908**	$23,116,733
Less: Accumulated depreciation	**10,549,778**	9,218,076
	$18,248,130	$13,898,657
Mineral claims, petroleum and natural gas rights	**692,275**	783,938
Land	**2,211,675**	1,930,009
	$21,152,080	$16,612,604
	$87,914,183	$87,795,117

On behalf of the Board:

J. A. McLallen, Director

P. M. Reynolds, Director

LIABILITIES AND SHAREHOLDERS' EQUITY	1974	1973 (Restated)
Current Liabilities:		
Accounts payable and accrued liabilities	**$ 4,302,327**	$ 2,498,454
Federal and Provincial taxes payable (Note 2)	**—**	4,331,234
Total current liabilities	**$ 4,302,327**	$ 6,829,688
Long-Term Liabilities	**$ 439,859**	$ 535,340
Accumulated Provision for Future Income and Mining Taxes	**$ 2,070,729**	$ 1,545,818
Minority Interest in Subsidiary	**$ 235,968**	$ 303,744
Shareholders' Equity:		
Share Capital (Note 4)		
Authorized:		
10,000,000 Class A shares without par value		
10,000,000 Class B shares without par value		
Outstanding: 1974 — 6,435,297 Class A and Class B shares	**$ 3,217,649**	$ —
1973 — 6,422,897 shares	**—**	3,211,449
Contributed surplus	**24,273,586**	24,176,866
Retained earnings	**55,546,692**	51,192,212
	$83,037,927	$78,580,527
Less: 193,600 Class A shares purchased by the Company (Note 4)	**2,172,627**	—
	$80,865,300	$78,580,527
	$87,914,183	$87,795,117

The accompanying notes to consolidated financial statements are an integral part of this balance sheet.

Consolidated Statement of Contributed Surplus
for the years ended December 31, 1974 and 1973

	1974	1973
Balance, beginning of year	**$24,176,866**	$23,977,011
Premium on issue of shares		
for cash	**96,720**	160,105
for petroleum properties	**—**	39,750
Balance, end of year	**$24,273,586**	$24,176,866

Consolidated Statement of Retained Earnings
for the years ended December 31, 1974 and 1973

	1974	1973 (Restated)
Balance, beginning of year		
As previously reported	**$39,192,212**	$26,719,347
Reduction of prior years' income tax (Note 2)	**12,000,000**	7,221,557
As restated	**$51,192,212**	$33,940,904
Net earnings	**9,480,494**	21,742,476
	$60,672,706	$55,683,380
Dividends (Note 4)	**5,126,014**	4,491,168
Balance, end of year	**$55,546,692**	$51,192,212

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statement of Earnings

for the years ended December 31, 1974 and 1973

	1974	1973 (Restated)
Concentrate revenue	**$40,349,775**	$49,712,284
Production, administration, transportation and marketing costs	**$20,084,432**	$15,147,856
Depreciation	**2,074,011**	1,967,050
Exploration	**2,881,544**	1,849,270
	$25,039,987	$18,964,176
Earnings from operations before income, mining and mineral land taxes	**$15,309,788**	$30,748,108
Provision for Province of British Columbia taxes:		
Mineral land tax (royalties)	**$ 1,001,778**	$ —
Mining tax	**2,166,705**	3,947,002
Corporation tax	**1,394,122**	1,098,449
	$ 4,562,605	$ 5,045,451
Provision for federal government corporation tax	**2,990,523**	3,390,563
Total taxes provided on mining operations	**$ 7,553,128**	$ 8,436,014
Earnings from mining operations	**$ 7,756,660**	$22,312,094
Interest income	**$ 5,303,414**	$ 3,214,518
Provision for taxes on interest income	**2,765,839**	1,639,404
Net interest income	**$ 2,537,575**	$ 1,575,114
Earnings before minority interest in net loss of subsidiary and extraordinary items	**$10,294,235**	$23,887,208
Minority interest in net loss of subsidiary	**67,776**	47,436
Earnings before extraordinary items	**$10,362,011**	$23,934,644
Extraordinary items (net of tax) (Notes 1 and 3)	**881,517**	2,192,168
NET EARNINGS	**$ 9,480,494**	$21,742,476
Earnings per share		
Before extraordinary items	**$ 1.62**	$ 3.73
After extraordinary items	**$ 1.48**	$ 3.39

The accompanying notes to consolidated financial statements are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1974 and 1973

Working Capital Provided From:	1974	1973 (Restated)
Earnings before extraordinary items	**$10,362,011**	$23,934,644
Add — Expenses not requiring an outlay of working capital —		
Depreciation	**2,074,011**	1,967,050
Provision for future taxes	**625,347**	—
Minority interest in net loss of subsidiary	**(67,776)**	(47,436)
Other	**373,274**	246,014
	$13,366,867	$26,100,272
Proceeds from issue of shares	**102,920**	212,405
	$13,469,787	$26,312,677

Working Capital Applied To:	1974	1973 (Restated)
Repayment of long term debt	**$ 110,053**	$ 109,361
Investments	**190,637**	28,298
Purchase of 193,600 Class A shares of the Company	**2,172,627**	—
Purchase of capital assets	**6,951,721**	692,707
Dividends	**5,126,014**	4,491,168
	$14,551,052	$5,321,534
Increase (decrease) in working capital	**$ (1,081,265)**	$20,991,143
Working capital at beginning of year	**61,901,189**	40,910,046
Working capital at end of year	**$60,819,924**	$61,901,189

The accompanying notes to consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements
December 31, 1974

1. SUMMARY OF ACCOUNTING POLICIES

Principles of Consolidation

The accounts of Frio Oil Ltd., 50% owned, as well as those of the Company's wholly-owned subsidiaries, are consolidated in these statements. The excess of cost over book value relating to the acquisition of Frio Oil Ltd. has been allocated to petroleum and natural gas rights.

Currency Conversion

Current assets in U.S. funds were converted into Canadian funds at the rate of exchange applicable at the balance sheet date.

Exploration and Development Costs

Exploration and development costs are expensed until an orebody is considered to have economic feasibility, at which time all further costs are capitalized and written-off against future production revenue from that orebody. Such costs were capitalized on the J-A Zone in 1972, since the decision to proceed to production was considered at the time to be imminent. In 1973, the plan to bring the orebody into production was indefinitely postponed, and the capitalized costs of $2,192,168 net of taxes were charged against 1973 earnings.

Sale of Concentrates

The Company has pre-sold its estimated concentrate production until February 28, 1978. Concentrate revenue is recorded in the accounts during the month of production of the concentrates based on the then current published metal prices and the estimated weights and assays.

These preliminary revenue calculations are subject to adjustment after the concentrates have arrived at the smelter when final weights, assays and metal prices are determined. At December 31, 1974 the concentrate revenue included $5,488,257 (1973 - $6,088,095) in inventories and shipments in transit, which are subject to the final adjustment referred to above.

Capital Assets and Depreciation

Buildings, mill equipment and roads are depreciated on a straight-line basis over their estimated useful life. Mobile equipment is depreciated on a unit-of-use basis over its estimated productive life. Petroleum, natural gas, surface and mineral rights are recorded at original cost without amortization.

2. FEDERAL AND PROVINCIAL TAXES

The Company successfully appealed the Minister of National Revenue's denial of a three-year tax-free period in respect of the Jersey Mine. In addition, the Minister of National Revenue has accepted the Company's application for a three-year tax-free period on the Huestis Mine. The Company had previously paid taxes on the basis that the income from both the Jersey and Huestis Mines would not be classified as tax exempt. The taxation authorities have commenced re-assessment procedures on the taxation years affected. The Company has recorded the income tax refunds and interest, pertaining to the Jersey and Huestis Mines, which are estimated at $10,200,000, in the consolidated financial statements as follows:

a) $7,221,557, relating to tax reductions and interest for the fiscal periods ending December 31, 1972 and prior is recorded as a prior period adjustment on the statement of retained earnings.
b) The 1973 provision for taxes in the statement of earnings has been reduced by $4,778,443.
c) The accumulated provision for future income and mining taxes has been reduced by $1,800,000 as of December 31, 1973.

3. INVESTMENTS

At December 31, 1974 investments having a market value less than cost were recorded at market value. This has resulted in an extraordinary loss, net of tax recovery, of $881,517.

The Company holds the following investments:

Investments In Other Companies	Approx. Ownership	Recorded At	1974	1973
Ionarc Smelters Ltd. . . .	8%	1974—Market 1973—Cost	$ 96,663	$ 968,500
Valley Copper Mines Ltd. (N.P.L.)	5%	Cost	1,046,009	1,046,009
Other Shares		Lower of Cost or Market	10,812	60,927
			$1,153,484	$2,075,436
Employee housing, agreements and property . . .		Cost	356,901	225,503
Bonds, debentures and miscellaneous investments		Cost	129,467	150,697
			$1,639,852	$2,451,636

4. SHARE CAPITAL

The following options to officers and employees to purchase shares of the Company were outstanding as at December 31 ,1974:

17,000 shares at $6.25 per share to December 31, 1976.

19,000 shares at $9.00 per share to December 31, 1976.

Options for 12,400 shares were exercised during the year ended December 31, 1974 for a total cash consideration of $102,920.

At the Annual General Meeting held on June 13, 1974 shareholders approved a special resolution reorganizing the Company's share capital. All existing shares became Class A shares and a new class of shares was created and designated Class B shares. The two classes of shares are interconvertible and exactly the same in every respect. The sole purpose of the change in capitalization was to enable the Company to distribute tax paid dividends to those shareholders who would benefit from them. The Company distributes tax paid dividends on Class B shares by paying a 15% tax on certain surplus accounts of the Company from which the dividends are paid. The dividends on Class B shares are, therefore, 15% less than the dividends received on Class A shares.

By a resolution dated September 6, 1974 the Directors authorized the purchase of up to 500,000 of the Company's shares through the stock markets. At December 31, 1974 193,600 shares have been purchased at a total cost, including taxes, of $2,172,627. The shares are being held for possible reissue rather than being cancelled.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration to directors and senior officers for the year ended December 31, 1974 amounted to $482,222 (1973 — $428,900).

6. PENSION AND RETIREMENT COSTS

Total pension and retirement plan costs for 1974 were $360,409 of which $267,447 was for the benefit of senior officers. In addition $330,050 was paid pursuant to actuarial adjustments for the period prior to 1973 of which $143,128 was for the benefit of senior officers. The Company's past service pension commitments are now fully funded.

7. CAPITAL PROJECTS

Expenditures of approximately $3.5 million are planned in 1975 for the purchase of mining equipment and shop facilities.

8. SUBSEQUENT EVENTS

On February 16, 1975 the roof of the fine ore storage building at the mine was damaged due to pressures of heavy snowfalls. As a result, the ore conveyor systems were immobilized and concentrate production at the mine was halted until March 4, 1975. The loss of production and the damages were insured.

As a result of worldwide economic problems the Company's smelter customers requested, and the Company accepted, a 15% reduction in contracted concentrate shipments for the period March 1, 1975 to February 28, 1976. Lower grade ore being processed will meet cutback requests.

Auditors' Report

To the Shareholders,
BETHLEHEM COPPER CORPORATION:

We have examined the consolidated balance sheet of BETHLEHEM COPPER CORPORATION (a British Columbia company) and subsidiaries as of December 31, 1974 and 1973, and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Bethlehem Copper Corporation and subsidiaries as of December 31, 1974 and 1973, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Pursuant to Section 212 of the British Columbia Companies Act, we further report that, in our opinion, due provision has been made for minority interests.

February 20, 1975.
Vancouver, Canada.

ARTHUR ANDERSEN & CO.
Chartered Accountants.

Corporate Information

Directors

NILS SVEN ERSMAN, Stockholm
Member of the Corporate Management Committee, Gränges AB

JOHN A. McLALLEN, Vancouver
Managing Director of Capilano Timber Co. Ltd.

WILLIAM H. McLALLEN, JR., Vancouver
Secretary of Capilano Timber Co. Ltd.

PLATO MALOZEMOFF, New York
Chairman and Chief Executive Officer of Newmont Mining Corporation

HUGH A. MARTIN, Vancouver
President of Western Construction & Engineering Research Ltd.

THE HON. JOHN L. NICHOL, Vancouver
President of Springfield Investment Co. Ltd.

KUNIO OHTA, Tokyo
Adviser to the President of Sumitomo Shoji Kaisha Ltd.

GÖRAN PHILIPSON, Stockholm
Senior Vice-President of Gränges AB

BRYAN J. REYNOLDS, Vancouver
Partner, Lawrence & Shaw, Barristers and Solicitors

PATRICK M. REYNOLDS, Vancouver
President and Chief Executive Officer of Bethlehem Copper Corporation

ALAN G. THOMPSON, Winnipeg
Managing Partner of Richardson Securities of Canada

JACK E. THOMPSON, New York
President of Newmont Mining Corporation

Officers

JOHN A. McLALLEN, Chairman of the Board

PATRICK M. REYNOLDS, President and Chief Executive Officer

KEITH E. STEEVES, C.A., Treasurer

DONALD W. J. SPECHT, LL.B., Secretary

RICHARD A. MUNDIE, C.A., Assistant Treasurer

Audit Committee

HUGH A. MARTIN, Chairman

BRYAN J. REYNOLDS

ALAN G. THOMPSON

Honorary Positions

HERMAN H. HUESTIS, Honorary Vice-Chairman

RICHARD F. DOOLEY, Honorary Vice-President

Vice-Presidents

HENRY G. EWANCHUK, Assistant to the President

THOMAS P. LISS, Operations

RICHARD A. MUNDIE, Corporate Planning and Development

DONALD W. J. SPECHT, General Counsel

KEITH E. STEEVES, Finance

Exchange Listings

Vancouver, Toronto and Montreal Stock Exchanges

Registrar

The Royal Trust Company, Vancouver

Transfer Agents

The Royal Trust Company
Vancouver, Calgary and Toronto, Canada
Registrar and Transfer Company
Jersey City, New Jersey, U.S.A.

Bank

Bank of Montreal, Vancouver and Ashcroft, B.C.

Auditors

Arthur Andersen & Co., Vancouver

Solicitors

Lawrence & Shaw, Vancouver

Offices

Head Office:
#2100 - 1055 West Hastings Street, Vancouver, B.C.
V6E 2H8

Mine Office:
P.O. Box 520, Ashcroft, B.C. V0K 1A0

Annual Meeting

The Annual General Meeting of Bethlehem Copper Corporation will be held on Thursday, June 12th, 1975 at 10:00 a.m. in the Regency Ballroom, Section West, of the Hyatt Regency Hotel, Vancouver, British Columbia, Canada.

Summary of Operations

Net operating income
Investment income

Depreciation
Exploration
Interest on funded debt
Bond discount and premium
Taxes on income, including future taxes

Net earnings

Shares issued
Earnings per share
Dry tons milled
Average tons per calendar day
Average heads — %
Pounds of copper produced
Average price per lb. of copper — U.S. cents

Years Ended						Ten Months Ended*	Years Ended		
February 28, 1966	February 28, 1967	February 29, 1968	February 28, 1969	February 28, 1970	February 28, 1971	December 31, 1971	December 31, 1972	December 31, 1973	December 31, 1974
$ 3,114,797	$ 6,933,628	$10,408,226	$13,981,796	$19,364,245	$12,853,752	$ 8,302,896	$ 9,020,264	$34,564,428	$20,265,343
11,342	163,315	256,657	408,533	941,795	2,989,441	2,037,235	1,967,251	3,214,518	4,321,461***
3,126,139	7,096,943	10,664,883	14,390,329	20,306,040	15,843,193	10,340,131	10,987,515	37,778,946	24,586,804
317,568	483,204	841,605	1,094,468	1,202,409	1,354,326	1,242,980	1,707,093	1,967,050	2,074,011
—	134,222	390,760	545,569	1,410,068	949,561	1,609,312	455,635	5,444,877**	2,813,768
30,851	240,273	229,777	20,967	—	—	—	—	—	—
9,167	22,000	31,080	336,744	—	—	—	—	—	—
—	†—	†—	†5,011,576	†7,416,221	†5,346,396	†2,467,615	†2,336,243	†8,624,543****	10,218,531****
357,586	879,699	1,493,222	7,009,324	10,028,698	7,650,283	5,319,907	4,498,971	16,036,470	15,106,310
$ 2,768,553	$ 6,217,244	$ 9,171,661	$ 7,381,005	$10,277,342	$ 8,192,910	$ 5,020,224	$ 6,488,544	$21,742,476	$ 9,480,494
5,211,500	5,222,000	5,261,250	5,346,343	6,360,293	6,367,793	6,381,297	6,397,797	6,422,897	6,241,697
53c	†$1.19	†$1.74	†$1.38	†$1.62	†$1.29	†79c	†$1.01	†$3.39	$1.48
2,007,883	3,279,073	4,136,167	5,080,664	5,337,961	5,461,535	4,761,238	5,964,696	6,339,122	6,346,402
5,501	8,984	11,301	13,920	14,625	14,963	15,560	16,297	17,367	17,387
.69	.60	.58	.58	.52	.51	.52	.54	.58	.51
23,118,998	32,255,986	40,143,527	50,499,680	48,609,230	49,134,555	43,432,094	58,244,020	67,086,192	57,089,384
37.06	48.82	49.15	49.15	64.41	58.35	50.73	48.36	80.00	93.41

†Revised to reflect the recovery of prior years' taxes.

**In 1971 the year end was changed to coincide with the calendar year resulting in the report for that fiscal year covering a 10 month period.*

***Includes exploration costs of the J-A mine capitalized in 1972 of $3,643,043*

****Includes extraordinary loss on writedown of investments of $981,953.*

*****Includes tax adjustments on extraordinary items.*

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REPORT TO THE SHAREHOLDERS

October - November - December
1974

Bethlehem Copper Corporation

Suite 2100, Guinness Tower,
1055 West Hastings Street,
Vancouver, B.C. V6E 2H8

BETHLEHEM COPPER CORPORATION

1974 OPERATING RESULTS:

In the calendar year 1974 the price for copper on the London Metal Exchange fell from a high of $1.52 in April to a low of 56.3¢ in December. The average price for the year was 91¢ compared to 80¢ in 1973. However, the grade of ore processed during the year was 0.51% copper compared to 0.58% in the previous year. This lower grade, combined with higher smelter charges, resulted in concentrate revenues falling by nearly 20%.

The Province of British Columbia imposed additional mineral taxation effective January 1, 1974 and the provision for this cost, added to higher income tax rates and to rapidly escalating operating costs, resulted in profits from mine operations being about one half of those experienced in 1973.

1975 OPERATIONS:

The current price being received for our product is about equal to the cost of producing it. In order not to suffer losses, Bethlehem's Management has temporarily adjusted its mining plans by going to a lower stripping ratio, idling some of its mine equipment and reducing its workforce by about 10%.

Our smelter customers are suffering from higher operating costs and the financing of inventories of unsold copper. They have been forced to cutback their operations and have asked Bethlehem to reduce its shipments of concentrate by 15% in the early part of 1975.

If housing starts in the United States and automobile production in Japan, Europe and the United States improve later in the year, the demand for copper and its price on world markets should begin an upward movement.

ANNUAL REPORT:

The Annual Report will be mailed to shareholders on or about May 20th, 1975.

ANNUAL MEETING:

The Annual Meeting of Shareholders will be held in Vancouver on June 12th, 1975

DIVIDEND:

The regular dividend of 15¢ on Class A Shares and a tax paid dividend of 12.75¢ on Class B Shares will be paid on March 19th to all shareholders of record on March 1st, 1975.

February 3rd, 1975 PATRICK M. REYNOLDS
President.

SUMMARY OF OPERATING RESULTS
(Figures subject to audit)

	Three Months Ended December 31 1974	Three Months Ended December 31 1973	Year Ended December 31 1974	Year Ended December 31 1973
Mill feed (dry) — average per calendar day .... Tons	17,459	17,197	17,387	17,367
Grade of ore — copper .... %	.49	.55	.51	.58
Concentrate grade .... %	34.36	31.19	33.13	31.80
Copper produced .... Pounds	14,123,093	15,722,831	57,089,384	67,086,192
Average copper price per pound .... Canadian cents	58.83	99.01	91.08	80.48
CONCENTRATE REVENUE	$ 6,351,352	$ 15,976,019	$ 39,359,777	$ 48,691,108
Production costs	$ 6,005,301	$ 4,178,673	$ 20,928,510	$ 16,093,730
Exploration and development	256,077	579,684	2,483,922	1,801,834
	$ 6,261,378	$ 4,758,357	$ 23,412,432	$ 17,895,564
Mining Income before provision for federal and provincial taxes	$ 89,974	$ 11,217,662	$ 15,947,345	$ 30,795,544
Provision for Province of British Columbia taxes				
Mineral land tax (royalties)			$ 1,022,690	$ —
Mining tax			2,116,800	3,947,002
Corporation tax			1,414,828	2,222,789
			$ 4,554,318	$ 6,169,791
Provision for federal government corporation tax			3,171,162	7,044,666
Total tax provided on mining operations* ..	**$ (1,906,129)	$ 4,853,166	$ 7,725,480	$ 13,214,457
Net income from mining operations	$ 1,996,103	$ 6,364,496	$ 8,221,865	$ 17,581,087
INTEREST INCOME	$ 1,462,346	$ 1,269,008	$ 5,269,678	$ 3,214,518
Provision for taxes on interest income	731,173	647,194	2,634,839	1,639,404
Net Interest Income	$ 731,173	$ 621,814	$ 2,634,839	$ 1,575,114
TOTAL NET INCOME BEFORE EXTRAORDINARY ITEM	$ 2,727,276	$ 6,986,310	$ 10,856,704	$ 19,156,201
Write-off of exploration costs of J-A Mine capitalized in 1972 (net of taxes)				2,192,168
NET INCOME				$ 16,964,033
EARNINGS PER SHARE				
1974 — 6,241,697 shares outstanding (6,435,297 shares issued less 193,600 shares owned by company)				
On shares outstanding	$ .44		$1.74	
Weighted average shares outstanding ..	$ .43		$1.70	
1973 — 6,422,897 shares outstanding (prior to extraordinary item)		$1.09		$2.98

*Includes provision for future taxes:
1974 $ 727,569
1973 ($ 38,118)

**Adjustment for over provision for taxation earlier in year.

AFTER EX. ITEM. $2.64